CAPITAL ADEQUACY AND MARKET DISCIPLINE

In accordance with Bangladesh Bank's DFIM Circular no. 14 dated 28 December 2011, the disclosures on capital adequacy and market discipline have been made in line with same circular, which consists of the following three mutually reinforcing pillars:

Pillar I	This prescribes the minimum capital requirements for Credit Risk, Market Risk and Operational Risk.
Pillar II	This prescribes the Supervisory Review Process which is based on the principle that the Company assesses the overall adequacy of its capital and set targets for capital that commensurate with the Company's specific risk profile and control environment.
Pillar III	This depicts Market Discipline and comprises as set of disclosures on the capital adequacy and risk management framework on the Company to ensure that market participants can better understand the Company's risk profile and the adequacy of its capital.

SCOPE OF APPLICATION

-----QUALITATIVE DISCLOSURES

The name of the top corporate entity in the group to which this guideline applies	IPDC Finance Limited
An outline of differences in the basis of consolidated for accounting and regulatory purpose with a brief description of the entities within the group (a) that are fully consolidated; (b) that are given a deduction treatment; and (c) that are neither consolidated nor deducted (e.g. where the investment is risk weighted)	Not Applicable since the Company does not have any subsidiary
Any restrictions, or other major impediments, on transfer of funds or regulatory capital within the group.	Not Applicable

-----QUANTITATIVE DISCLOSURES

The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation that are deducted and the name(s) of such subsidiaries.	Not Applicable since the Company does not have any subsidiary

CAPITAL STRUCTURE

-----QUALITATIVE DISCLOSURES

Summary information on the terms and conditions of the main features of al capital instruments, especially in the case of capital instruments eligible for inclusion in Tier I or in Tier II.

As per the guidelines of Bangladesh Bank, Tier - I and Tier – II Capital of the Company consists of as per following:

Tier I	**Tier II**
Fully Paid-up Capital	General provision
Share premium account	Revaluation reserves
Statutory Reserve	50% of revaluation reserve of fixed assets
Retained Earnings	45% of revaluation reserve on Securities
	All other preference shares

-----QUANTITATIVE DISCLOSURES

The amount of Tier I capital, with separate disclosure of: in BDT mn

Particulars	**Amount**
Paid-up capital	3,710.9
Share premium account	402.6
Statutory Reserve	1,160.5
General Reserve	
Retained Earnings	1,224.3
Total Tier - I Capital	**6,498.4**
Total amount of Tier - II Capital	1,257.3
Other deductions from capital	-
Total eligible capital	**7,755.7**

CAPITAL ADEQUACY

-----QUALITATIVE DISCLOSURES

A summary discussion of the Company's approach to assessing the adequacy of its capital to support current and future activities.

IPDC has adopted Standardized Approach for computing Capital Charge for Credit and Market Risk while Basic Indicator Approach for Operational Risk. Total Risk Weighted Assets (RWA) is determined by multiplying the capital charge for market risk and operational risk by the reciprocal of the minimum capital adequacy ratio which is currently 10% and adding the resulted figure to the sum of the RWA for credit risk. Capital Adequacy Ratio (CAR) is then determined by dividing total RWA by total Eligible Regulatory Capital:

Particulars	Amount in BDT mn
Capital requirement for Credit Risk	43,603.3
Capital requirement for Market Risk	884.2
Capital requirement for Operational Risk	4,220.1

Total and Tier I capital ratio - For stand alone	%
CAR on Total Capital basis	15.92
CAR on Tier - I Capital basis	13.34

Five years CAR comparison	2018	2019	2020	2021	2022
Total Eligible Capital	4,150	6,839	7,249	7,508	7,756
Total Risk Weighted Assets	29,615	35,430	39,162	47,970	48,708
CAR %	14.01%	19.30%	18.51%	15.65%	15.92%

CREDIT RISK

-----QUALITATIVE DISCLOSURES

The general qualitative disclosure requirement with respect to credit risk, including:

Definition of Past Due and Impaired (for Accounting Purposes)

With a view to strengthening credit discipline, the Company classifies loan, leases and advances and maintains provision in line with Bangladesh Bank's FID Circular no. 08 dated 03 October 2002 and FID Circular no. 03 dated 03 May 2006 as follows:

Fixed term loans (repayable within maximum 5 years of time) are classified as:	
Substandard	if defaulted installment is equal to or more than the amount of installment(s) due within 6 (six) months, the entire loans are classified as 'Sub-standard'.
Doubtful	if defaulted installment is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loans are classified as 'Doubtful'.
Bad/Loss	if defaulted installment is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire loans are classified as 'Bad/Loss'.
Fixed term loan (repayable more than 5 years of time) are classified as:	
Substandard	if defaulted installment is equal to or more than the amount of installment(s) due within 12 (twelve) months, the entire loans are classified as 'Sub-standard'
Doubtful	if defaulted installment is equal to or more than the amount of installment(s) due within 18 (eighteen) months, the entire loans are classified as 'Doubtful'
Bad/Loss	if defaulted installment is equal to or more than the amount of installment(s) due within 24 (twenty-four) months, the entire loans are classified as 'Bad/Loss'.

Description of Approaches Followed for Specific and General Allowances and Statistical Methods

The Company is following the general and specific provision for loans and advances/investments based on Bangladesh Bank guidelines issued from time to time.

Particulars	Rate
General provision on unclassified loan, leases	1%
General provision on unclassified SME loan, leases	0.25%
General provision on special mention account	5%
Specific provision on substandard loan, leases	20%
Specific provision on doubtful loan, leases	50%
Specific provision on bad/loss loan, leases	100%

DISCUSSION OF THE COMPANY'S CREDIT RISK MANAGEMENT POLICY

Credit risk is the risk of loss that occur from the failure of any counterparty to make required payments in accordance with agreed terms and conditions and/or deterioration of credit worthiness. Credit risk is managed through a framework set by policies and procedures established by the Board. The responsibility is clearly segregated between originator of business transaction and approver in the risk function.

Credit policies and procedures	The Credit Policy Manual contains the core principles for identifying, measuring, approving and managing credit risk in the Company. These policies are established by the Board of Directors which are designed to meet the organizational requirements. These policies represent the minimum standards for credit extension by the Company and these are not a substitute for the experience and prudent judgment. The policy covers corporate, small and medium enterprise. There is a comprehensive credit appraisal procedure that covers business risk, management risk, financial risk, security risk, environmental risk, reputational risk, and account performance risk. Credit risk management function is independent of business originating functions to establish better internal control systems and conflict of interest. The Head of Credit Risk Management (HoCRM) has clear responsibility for management of credit risk of the Company.
Credit Rating and Measurement	Risk management plays a central role along with prudential judgment and experience in informed risk-taking decisions and portfolio management. For risk management, the Company uses a numeric grading system associated with a borrower. Though this rating system, 'Credit Risk Grading Matrix (CRGM)' is not a lending decision making tool, but it is used as general indicator to compare one set of customers with others. CRGM analyses a borrower against a range of quantitative and qualitative measures. No rating model for retail and channel financing are currently in practice rather borrowers are assessed against some pre-approved criteria outlined in Product Program Guidelines, which are approved by the BOD.
Credit Monitoring	The Company, at least quarterly, monitor credit exposures and portfolio performance. Corporate and medium enterprise accounts are continuously monitored under a clearly set out credit policy. Early alerts are raised for financial deterioration, management weakness, irregular repayments, breach of covenants, eroding position in the industry etc. If early alerts are raised, remedial actions are agreed and monitored.
Credit Risk Mitigation	Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting agreement and other guarantees. The reliance that can be placed on these mitigates is carefully assessed in light with issues such as legal certainty and enforceability, market valuation, and counterparty risk of the guarantor. Collateral is valued by independent third-party surveyor in accordance with the Company's credit policy and procedures.
Credit Approval	Board of Directors of the Company has the sole authority to approve any credit exposure and to sub delegate to such authority the 'Executive Committee', a subcommittee of the Board, with no approval authority to the Managing Director & CEO and other Departmental Heads.
Downgraded Credit Management	The Company has a separate 'Special Asset Management (SAM)' department, dedicated for management, settlement, and recovery of Downgraded credits. Major responsibility of this department is to formulate strategy and action plans for minimizing risk, prevention of loss, maximization of recoveries and restructuring, direct recovery and/or legal actions.

-----QUANTITATIVE DISCLOSURES

Product-wise Credit Exposure

Particulars	**Amount in BDT mn**
Lease finance	5,733.9
Term loans and advances	43,048.0
Mortgage finance	9,489.2
Channel finance	4,196.3
Retail loan	5,264.2
Personal Loan	373.9
Total	**68,105.6**

Geographical Distribution of Exposures

Particulars	**Amount in BDT Mn**
Dhaka Division	53,302.5
Chittagong Division	7,859.6
Khulna Division	2,105.4
Rangpur Division	1,516.1
Rajshahi Division	1,223.1
Sylhet Division	564.2
Barisal Division	319.5
Mymensingh Division	1,215.2
Total	**68,105.6**

Industry or Counterparty-wise Credit Exposures

Particulars	Amount in BDT Mn
Agro-based industries	4,534.0
Banks and non-banking financial institutions	746.7
Chemicals, pharmaceuticals, and allied products	3,726.3
Engineering and building materials	3,304.0
Food and allied products	3,647.0
Glass, ceramic and other non-metallic products	625.6
Hotel, tourism and leisure	66.0
Information and communication technologies	1,775.3
Paper converting and packaging, printing and publishing	2,418.0
Ready-made garments and knitwear	8,199.9
Social sector	2,597.1
Tannery, leather and rubber products	441.3
Textile	2,144.4
Transport and aviation	1,940.5
Others	31,939.3
Total	**68,105.6**

Residual Contractual Maturity-wise Credit Exposures

Particulars	Amount in BDT Mn
On demand	-
Upto one month	4,548.9
More than one month but less than three months	10,974.3
More than three months but less one year	14,372.3
More than one year but less than five years	30,087.7
More than five years	8,122.3
Total	**68,105.6**

Amount of impaired loans and if available, past due loans, provided separately

Particulars	Amount in BDT Mn
Gross non-performing assets (NPAs)	2,818.0
NPAs to gross loans and advances (in %)	4.14%

Specific and General Provisions

Particulars	Amount in BDT Mn
Provision for unclassified loans and advances	1,186.4
Provision for classified loans and advances	1,165.9
Total	**2,352.4**

Charges for Specific Allowances and Charge-offs during the Period : None

Movement of Non-Performing Assets (NPAs)

Particulars	Amount in BDT Mn
Opening Balance	2,056.2
Additions	1,545.4
Reductions	783.4
Closing Balance	**2,818.0**

-----QUALITATIVE DISCLOSURES

The general qualitative disclosure requirement with respect to equity risk, including:

i. Differentiation between holding on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons.	Investment in equity securities is broadly categorized into two parts, Quoted Securities that are traded in the secondary markets (Trading Book Assets) and Unquoted Securities that are valued at cost price.
ii. Discussion of important policies covering the valuation and accounting of equity holdings in the banking book positions. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices.	Both quoted and unquoted securities are valued at cost and necessary provisions are maintained if the prices fall below the cost price.

-----QUANTITATIVE DISCLOSURES

Value disclosed in the balance sheet of investments, as well as the fair value of those investment; for quoted securities, a comparison to publicly quoted share values where the share price is materially different from fair value.

in BDT mn

Particulars	Cost Value	Market Value
Quoted Shares	488.3	442.1
Unquoted Shares	4.5	4.5

Particulars	Amount in BDT Mn
Revaluation reserve on fixed assets	304.6
Revaluation reserve on government securities	-
Amounts of the above included in Tier II capital.*	152.3

* 50% of asset revaluation reserve and 45% of revaluation reserve on govt. securities

Capital requirements broken down by appropriate equity groupings, consistent with the Company's methodology, as well as the aggregate amounts and the type of equity investments subject to any supervisory provisions regarding regulatory capital requirements.

Specific Market Risk	Market value of the investment in equity is BDT 442.1 million against which capital requirement @ 10% is BDT 44.21 million.
General Market Risk	Market value of the investment in equity is BDT 442.1 million against which capital requirement @ 10% is BDT 44.21 million

INTEREST RATE IN THE BANKING BOOK

-----QUALITATIVE DISCLOSURES

The general qualitative disclosure requirement including the nature of interest risk and key assumptions, including assumptions regarding loan prepayments and behavior or non-maturity deposits.

Interest rate risk is the risk where changes in market interest rates might adversely affect the Company's financial condition. Changes in interest rates affect both the current earnings as well as the net worth of the Company. The short-term impact of changes in interest rates is on the Company's Net Interest Income. In long term, changes in interest rates impact the cash flows on the assets and liabilities giving rise to a risk to the net worth of the Company arising out of all re-pricing mismatches and other interest rate sensitive position. The Assets Liability Committee (ALCO) of the Company monitors the interest rate movement on a continuous basis.

-----QUANTITATIVE DISCLOSURES

The increase/(decline) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method for measuring interest rate risk broken down by currency (as relevant).

Mismatch between Rate Sensitive Liabilities & Assets in BDT mn

Particulars	Within 1 Month	1-2 Months	2-3 Months	3-6 Months	6 Months -1 Year	Above 1 Year
RSL*	941	613	605	628	781	3,253
RSA*	1,102	675	719	686	853	3,766
Mismatch	161	63	114	58	72	513
Cumulative Mismatch	161	224	337	395	467	981
Mismatch	17.11%	10.21%	18.78%	9.19%	9.28%	15.78%

* RSL: Rate Sensitive Liabilities, RSA: Rate Sensitive Assets

Interest Rate Risk - Increase in Interest Rate in BDT mn

Particulars	Minor 2%	Moderate 4%	Major 6%
Change in the Value of Bond	0.00	0.00	0.00
Net Interest Income	9.35	18.70	28.04
Revised Regulatory Capital	776.91	786.26	795.61
Risk Weighted Assets	4891.59	4891.59	4891.59
Revised CAR (in %)	15.88%	16.07%	16.26%

MARKET RISK

-----QUALITATIVE DISCLOSURES

Views of Board of Directors on Trading and Investment Activities

Market risk is the possibility of losses of assets in balance sheet and off-balance sheet positions arising out of volatility in market variables i.e., interest rate, exchange rate and price. Allocation of capital is required in respect of the exposure to risks deriving from changes in interest rates and market prices.

Methods used to Measure the Market Risk

Bangladesh Bank suggested the FIs for using Standardized Approach (rule based) in order to calculate the market risk for banking book where the capital charge for interest rate risk, price and foreign exchange risk is determined separately.

Market Risk Management System

Policies and processes for mitigating market risk

- To mitigate the several market risks the Company formed Asset Liability Management Committee (ALCO) that monitors the Treasury Division's activities to minimize the market risk. ALCO is primarily responsible for establishing the market risk management and asset liability management of the Company, procedures thereof, implementing core risk management framework issued by the regulator, best risk management practices followed by globally and ensuring that internal parameters, procedures, practices/policies and risk management prudential limits are adhere to.

- The ALCO reviews the risk of changes in income of the Company as a result of movement in the market interest rates. The Company always try to follow Bangladesh Bank's guidelines to minimize mismatches between the duration of interest rate sensitive assets and liabilities.

- In addition, ALCO holds monthly meetings on a regular basis for controlling day-to-day trading activities, to perform market analysis over interest rate and manage & monitor the level of mismatch for assessing the market risk.

-----QUANTITATIVE DISCLOSURES

Capital requirements for Market Risk

Particulars	**Amount in BDT Mn**
Interest rate risk	-
Equity position risk	884.2
Foreign Exchange Position and Commodity risk	-

OPERATION RISK

-----QUALITATIVE DISCLOSURES

Views of Board of Directors (BoD) on System to Reduce Operational Risk	The operational risk is defined as the risk of loss resulting from inadequacy or failure of internal processes, people, and systems or from external events. The Board of Directors (BoD) of the Company and its Management firmly believe that this risk through a control-based environment in which processes are documented, authorized as independent and transactions are reconciled and monitored. This is supported by an independent program of periodic reviews undertaken by internal audit. All the operational policies and guidelines are duly approved by the BoD.
Performance Gap of Executives and Staffs	The Company always strives to ensure a great place to work by hiring and retaining the most suitable people at all levels of the business. The Company affirms that there exists no performance gap.
Potential External Events	External events like general business and political situation, change in credit quality of the borrowers, change in market conditions etc. can affect the business of the Company. IPDC is proceeding with its strategic plan and its successful implementation for its future performance.
Policies and Procedures for Mitigating Operational Risk	IPDC mitigates operational risk by virtue of designing the organizational structure by clearly defining roles and responsibilities of individuals involved in risk taking as well as managing it, formulating overall risk assessment and management policies, methodologies, guidelines and procedures for risk identification, risk measurement, risk monitoring, defining an acceptable level of risk, mitigating all the core risks in line with their respective guidelines provided by Bangladesh Bank.
Approach for Calculating Capital Charge for Operation Risk	As suggested by the guideline, the Company has computed the capital requirements for operational risk under the 'Basic Indicator Approach (BIA)'. Under BIA, the capital charge for operational risk is a fixed percentage, currently 15% of average positive annual gross income of the Company over the past 3 years.

-----QUANTITATIVE DISCLOSURES

Capital Requirements for Operational Risk

Particulars	**Amount in BDT Mn**
Capital requirements for operational risk	4,220.1